

## Message Text

PAGE 01 SEOUL 04229 130706Z

17

ACTION EA-10

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COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07 INT-05 L-03

NSAE-00 NSC-05 OMB-01 PM-03 USIA-06 SAM-01 OES-03

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TAGSC ENRG, KS

SUBJECT: PLANS TO ESTABLISH NATIONAL OIL CORPORATION

BEGIN SUMMARY: ESTABLISHMENT OF GOVERNMENT-CONTROLLED KOREA PETROLEUM DEVELOPMENT CORPORATION WILL PROBABLY BE APPROVED AT NEXT SESSION OF NATIONAL ASSEMBLY. KNOWLEDGEABLE ROK OFFICIAL TOLD EMBOFF THAT PROPOSED COMPANY WOULD BE LIMITED PURPOSE INSTITUTION DESIGNED TO SERVE AS ROKG AGENT IN SPECIFIC OPERATIONS AND WAS NOT DESIGNED TO CURTAIL OR SUPPLANT ACTIVITIES OF OTHER PETROLEUM COMPANIES IN KOREA. END SUMMARY.

1. IDEA OF ESTABLISHING NATIONAL OIL COMPANY HAS JELLED A LITTLE WITH RECENT APPROVAL BY ROK ECONOMIC MINISTERS OF PROPOSED BILL TO ESTABLISH FIRM TO BE CALLED KOREA PETROLEUM DEVELOPMENT CORPORATION (KPDC). BILL, WHICH SUBJECT TO APPROVAL BY CABINET AND THEN NATIONAL ASSEMBLY, WOULD AUTHORIZE KPDC ENGAGE IN ALL TYPES OF PETROLEUM BUSINESS. AUTHORIZED CAPITAL  
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PAGE 02 SEOUL 04229 130706Z

WOULD BE 100 BILLION WON (ABOUT DOLS 200 MILLION),  
WITH INITIAL CAPITAL SMALLER AND ENTIRELY SUPPLIED BY  
ROKG.

2. ACCORDING COMMENTS TO EMBOFF BY ROK MINISTRY OF COMMERCE AND INDUSTRY (MCI) OFFICIAL DIRECTLY RESPONSIBLE FOR PETROLEUM POLICY, KPDC WILL BE LIMITED PURPOSE COMPANY CONDUCTING SPECIFIC OPERATIONS ON BEHALF OF GOVERNMENT, AS FOLLOWS:

A. STOCKPILING: STOCKS ARE PRESENTLY AT 20-30 DAY LEVEL AND SHOULD BE INCREASED TO MORE THAN 60 DAYS OVER NEXT FEW YEARS. BECAUSE PRIVATE OIL COMPANIES RELUCTANT TO INVEST IN EXPANDED STORAGE CAPACITY (TANK FARMS AND ALSO UNDERGROUND STORAGE FOR DEFENSE PURPOSES), GOVERNMENT ASSISTANCE NECESSARY. ROKG IS STUDYING JAPANESE GOVERNMENT PROGRAM AS POSSIBLE MODEL.

B. REFINING: SLIGHTLY MORE THAN FIFTY PERCENT ROKG PARTICIPATION IN KOCO (GULF), CURRENTLY HELD BY KOREA DEVELOPMENT BANK, WOULD BE REASSIGNED TO KPDC.

C. IMPORTING: WHERE THE ROKG CAN NEGOTIATE LOWER PRICES OR SOFTER CREDIT TERMS FROM PRODUCING COUNTRIES THAN FROM THE MAJOR INTERNATIONAL OIL COMPANIES PRESENTLY SUPPLYING KOREA, KPDC WILL ACT AS IMPORTER ON BEHALF OF ROKG TO EXTENT THAT LOCAL REFINERIES ARE NOT TIED TO PARTICULAR SUPPLIER. HONAM OIL (CALTEX) REFINERY, PRESENTLY FREE TO BUY 20 PERCENT OF CRUDE ON OPEN MARKET, MIGHT BE ABLE ACQUIRE THIS SHARE ON PREFERENTIAL TERMS THROUGH BILATERAL ROKG DEAL WITH SUPPLIER GOVERNMENT. CRUDE SUPPLIER FOR PROPOSED FOURTH REFINERY WOULD PRESUMABLY BE NATIONAL IRANIAN OIL CO.

D. OVERSEAS INVESTMENT: KPDC WOULD BE ROKG VEHICLE FOR ANY ROKG INVESTMENT IN OVERSEAS PRODUCTION, SUCH AS IN BRUNEI, DESIGNED TO INSURE CONTINUITY OF SUPPLY.

E. OFFSHORE KOREAN PRODUCTION: ROK OPTION OF 20 PERCENT PARTICIPATION WOULD BE EXERCISED THROUGH KPDC. MCI OFFICIAL DISPARAGED CURRENT RUMOR THAT LIMITED OFFICIAL USE  
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PAGE 03 SEOUL 04229 130706Z

SHELL HAS MADE STRIKE IN ZONE VIV SAID FORMATION ENCOUNTERED WAS ONLY A SMALL POCKET OF NO SIGNIFICANCE AND DRILLING CONTINUING.

F. RESEARCH: KPDC WOULD ESTABLISH PETROLEUM R AND D CENTER TO SERVE ENTIRE KOREAN PETROLEUM INDUSTRY ON NON-PROFIT BASIS.

3. MCI OFFICIAL EMPHASIZED THAT PROPOSED KPDC WAS IN NO WAY AIMED AT CURTAILING OR SUPPLANTING ACTIVITIES OF OTHER OIL COMPANIES OPERATING IN KOREA (MAJOR U.S. INVESTMENTS ARE BY GULF, CALTEX, AND UNION OIL).

ALSO SAID KPDC WOULD NOT ACTUALLY BE ESTABLISHED UNTIL  
1976 OR POSSIBL EVEN 1977 AND THAT NO FOREIGN OR  
PRIVATE EQUITY INVESTMENT IN KPDC WOULD BE SOUGHT  
DURING INITIAL PHASE WHEN EXTENT OF ACTIVITY WOULD  
BE SMALL. EVEN IN LATER PHASES, ROKG EXPECTED HOLD  
MORE THAN 50 PERCENT EQUITY CAPITAL.  
SNEIDER

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